

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

SB 1672 – HB 1689

February 26, 2018

SUMMARY OF ORIGINAL BILL: Reverses Tennessee's decoupling from federal bonus depreciation for excise tax filing purposes.

FISCAL IMPACT OF ORIGINAL BILL:

Increase State Revenue - \$5,559,000/FY23-24
\$39,039,000/FY24-25
\$66,520,000/FY25-26
\$78,000,000/FY26-27
Exceeds \$78,000,000/FY27-28 and Subsequent Years

Decrease State Revenue - \$171,362,000/FY19-20
\$107,882,000/FY20-21
\$88,401,000/FY21-22
\$45,921,000/FY22-23

SUMMARY OF AMENDMENT (011795): Deletes and replaces language in the bill such that the amended bill, for excise tax filing purposes, prevents the addition or subtraction from net earnings or net losses any depreciation, on any property acquired and placed in service on or after the first day of the first tax year ending on or after July 1, 2018, that a taxpayer deducted in computing federal taxable income, in excess of that which such taxpayer could have deducted under § 168 of the Internal Revenue Code, immediately prior to passage of the federal *Job Creation and Worker Assistance Act of 2002*

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Increase State Revenue - \$19,000,000/FY23-24
\$48,000,000/FY24-25
\$71,000,000/FY25-26
\$78,000,000/FY26-27
Exceeds \$78,000,000/FY27-28 and Subsequent Years

Decrease State Revenue - \$208,000,000/FY18-19
\$140,000,000/FY19-20
\$81,000,000/FY20-21
\$66,000,000/FY21-22
\$28,000,000/FY22-23

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Assumptions for the bill as amended:

- Pursuant to Tenn. Code Ann. § 67-4-2006(b)(1)(H), a taxpayer is required to add to a taxpayer's net earnings or net losses any depreciation that a taxpayer deducted in computing federal taxable income, in excess of that which such taxpayer could have deducted under § 168 of the Internal Revenue Code, immediately prior to passage of the federal *Job Creation and Worker Assistance Act of 2002*.
- Pursuant to Tenn. Code Ann. § 67-4-2006(b)(2)(I), a taxpayer is required to subtract from a taxpayer's net earnings or net losses any depreciation that a taxpayer deducted in computing federal taxable income, in excess of that which such taxpayer could have deducted under § 168 of the Internal Revenue Code, immediately prior to passage of the federal *Job Creation and Worker Assistance Act of 2002*.
- This legislation amends both Tenn. Code Ann. §§ 67-4-2006(b)(1)(H) and 67-4-2006(b)(2)(I), thus preventing the reduction of or addition to net income of a taxpayer by the amount of depreciation, against property placed in to service on or after the first day of the first tax year ending on or after July 1, 2018, that would have been added to net income, in the absence of this legislation.
- Based on returns received by the Department of Revenue (DOR) and the Department of Financial Institutions (DFI), DOR determined the impact of this legislation. Such analysis includes the impact of the recently passed federal Tax Cut and Jobs Act, which will, in conjunction with the proposed legislation, result in increases in state F&E tax revenue beginning with FY23-24.
- Based on DOR's review of such confidential tax data, DOR provided the following fiscal impacts:
 - A decrease in state revenue of \$208,000,000 in FY18-19
 - A decrease in state revenue of \$140,000,000 in FY19-20.
 - A decrease in state revenue of \$81,000,000 in FY20-21.
 - A decrease in state revenue of \$66,000,000 in FY21-22.
 - A decrease in state revenue of \$28,000,000 in FY22-23.
 - An increase in state revenue of \$19,000,000 in FY23-24.
 - An increase in state revenue of \$48,000,000 in FY24-25.
 - An increase in state revenue of \$71,000,000 in FY25-26.
 - An increase in state revenue of \$78,000,000 in FY26-27.
 - An increase in state revenue exceeding \$78,000,000 in FY27-28 and subsequent years.
- The Fiscal Review Committee staff does not have access to this confidential data and analysis and cannot independently verify their accuracy.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in dark ink that reads "Krista M. Lee". The signature is written in a cursive, flowing style.

Krista M. Lee, Executive Director

/jdb